

15. SOCIAL SECURITY

Table 15-1. Federal Resources in Support of Social Security
(In millions of dollars)

Function 650	2000 Actual	Estimate					
		2001	2002	2003	2004	2005	2006
Spending:							
Discretionary Budget Authority ...	3,210	3,447	3,520	3,597	3,680	3,759	3,845
Mandatory Outlays:							
Existing law	406,048	430,000	451,575	473,544	497,967	524,312	552,950
Tax Expenditures:							
Existing law	24,800	25,980	27,300	28,450	29,690	31,270	33,000

The Old-Age, Survivors, and Disability Insurance (OASDI) programs, commonly known as Social Security, are crucial to the economic well-being of tens of millions of Americans. Social Security will spend an estimated \$455 billion in 2002 to provide more than 46 million beneficiaries with comprehensive protection against loss of income due to the retirement, disability, or death of a wage earner.

Social Security provides monthly benefits to retired and disabled workers who gain insured status and to their eligible spouses, children, and survivors. The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance (OASI) program. Congress provided benefits for disabled workers by enacting the Disability Insurance (DI) program in 1956 and added benefits for the dependents of disabled workers in 1958. About 30 percent of Social Security beneficiaries are disabled workers and their families, or survivors of deceased workers. (See Table 15-2.)

DI provides income security for workers and their families when workers lose their capacity to work due to disability. Before DI, workers often had no such protection, although in some cases employees whose injuries were job-related may have received

State worker's compensation benefits. Congress enacted DI to protect the resources, self-reliance, and self-respect of those suffering from non-work-related disabilities. DI protection can be extremely valuable, especially for young families who are unable to sufficiently protect themselves against the risk of the worker's disability.

The Government expects to collect \$539 billion in Social Security taxes in 2002. These taxes will be credited to the OASI and DI trust funds, along with \$76 billion of interest on Treasury securities held by the trust funds.

In 2000, Social Security paid out a total of \$402 billion to 45 million beneficiaries. These payments included \$289 billion in benefits to 31 million retired workers and dependent family members, and about \$59 billion in benefits to seven million survivors of deceased workers. Through the DI program, Social Security paid \$54 billion in benefits to more than six million disabled workers and their families.

The Long-Range Challenge

Social Security is designed to be self-financed; its most important revenue source is the payroll tax. Pressure on the financing system is growing due to two demographic factors: members of the baby boom and subsequent generations are having fewer

Table 15–2. Social Security Beneficiaries
(Thousands of OASDI beneficiaries)

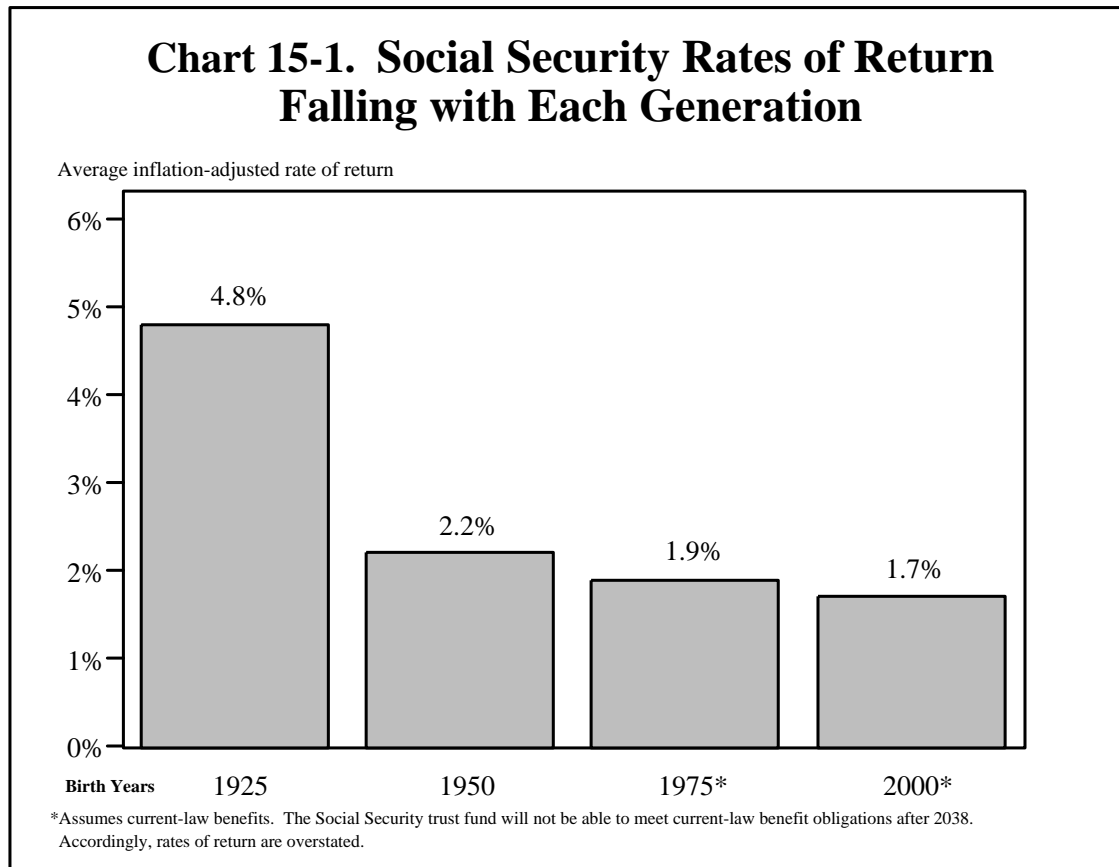
	2002 Estimate
Retired workers and families:	
Retired workers	28,976
Wives and husbands	2,779
Children	453
Survivors of deceased workers:	
Aged widows and widowers, and dependent parents	4,696
Children	1,891
Widowed mothers and fathers with child beneficiaries in their care	194
Disabled widows and widowers	210
Disabled workers and families:	
Disabled workers	5,303
Wives and husbands	162
Children	1,505
Total	46,169

children and are predicted to have longer life spans than previous generations. The consequence of these trends is that the ratio of workers paying into the system for each beneficiary will decline from 5.1 in 1960 to 3.4 today to 2.1 in 2030. These demographic trends will strain the Government's ability to make benefit payments at current payroll tax rates. Based on the 2001 Trustee's Report, the Social Security trust funds are expected to run a cash surplus until 2016. However, cash revenues will fall short of expenditures after that time, and the trust funds will exhaust their assets in 2038 unless corrective action is taken. After 2038, payroll taxes are projected to cover 73 percent of expenditures. Social Security is largely "pay-as-you-go," meaning current retirement benefits are financed by current payroll contributions. Another source of pressure on the trust funds is the rapid growth of the DI program, which is expected to accelerate as baby boomers reach the age at which they are increasingly prone to disabilities. As a result of these trends, Social Security's spending path is unsustainable in the long run.

The Social Security system faces a long-term unfunded liability of \$8.7 trillion. In addition, the pay-as-you-go structure of Social Security leads to substantial generational inequities in average rate of return. Future retirees on average can expect to get back

from Social Security barely more than they put in. The first generations of workers covered by Social Security experienced low payroll tax rates because there were relatively few retirees to support in the early years of the program. The earliest cohorts also paid taxes for only a portion of their working lives. Consequently, these early generations enjoyed a high rate of return from the program because the benefits they received exceeded their payroll tax contributions by a comfortable margin. As the system matured, payroll taxes rose to support an expanding beneficiary population, and rates of return declined. (See Chart 15–1.)

Restoring Social Security to financial balance solely through benefit cuts or tax increases would only worsen the returns that workers would get from the system. One way to address the long-term financial crisis is to allow individuals to keep some of their payroll taxes in personal retirement accounts that can earn higher rates of return through investment in private equities markets. The President is committed to modernizing and reforming Social Security, so that the system will be better able to meet the needs of tomorrow's retirees. The President will form a commission that will examine Social Security and present recommendations for reform next fall.



Principles for Reform

The President believes that Social Security reform should be based on the following principles:

- Modernization must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components. The promises made to current retirees must be kept.
- The Social Security surplus must be preserved only for Social Security. For 30 years, Social Security surpluses have been used to mask spending increases in programs unrelated to Social Security. Surpluses in the Social Security trust funds will total \$2.6 trillion over the next 10 years. These surpluses will be saved for Social Security reform and will be used to reduce debt held by the public until Social Security reform is enacted.

- Social Security payroll taxes must not be increased, as they have been 20 times since the program began in 1937.
- The Government itself must not invest Social Security funds in the private economy.
- Successful Social Security reform, which addresses both the long-term unfunded liability and the generational inequities, must be built upon a core of individually controlled, voluntary personal retirement accounts that will augment the Social Security safety net.

Social Security Administration (SSA)

To operate a program that affects tens of millions of beneficiaries and involves a significant share of all Federal outlays requires an efficient and responsive administrative structure. SSA administers the OASI and DI programs. SSA also runs the Supplemental Security Income (SSI) program for low-income aged and disabled individuals, which is part of the Income Security function

(see Chapter 14). In addition, the agency provides services that support the Medicare program on behalf of the Health Care Financing Administration, which is part of the Medicare function (see Chapter 13).

SSA undertakes a variety of activities in administering its programs. SSA is responsible for paying benefits to more than 50 million people every month, processing more than six million claims for benefits each year, handling approximately 59 million phone calls to its 800-number, and issuing 138 million Social Security statements. Other activities include issuing Social Security numbers, maintaining earnings records for wage earners and self-employed individuals, updating beneficiary eligibility information, educating the public about the programs, combating fraud, and conducting research, policy analysis and program evaluation. These activities are largely integrated across the various programs administered by SSA.

SSA faces enormous management challenges as a result of the aging of the baby boom generation. SSA's work force is aging and is likely to experience a wave of retirements in the next 10 years. During the same time frame, the agency's workloads will increase dramatically as members of the baby boom generation reach their peak years of disability risk and then begin to retire. Responding to these challenges will require that SSA rethink how it does business and develop innovative ways to manage its growing workloads.

The Administration proposes \$7.7 billion for SSA, an increase of \$0.5 billion, or 6.3 percent, above the 2001 enacted level of \$7.2 billion. This amount includes sufficient resources to ensure stable staffing in 2002 and will allow SSA to maintain performance in key service delivery areas such as retirement claims processing. It will allow SSA to process about 100,000 more initial disability claims in 2002 than in 2001. This funding also will help SSA continue its multi-year continuing disability review (CDR) plan, eliminating the CDR backlog in 2002, as well as increase the number of SSI non-disability eligibility redeterminations conducted. In addition, this amount includes resources for SSA to continue to modernize its computer infra-

structure and offer more services in an online environment.

SSA's Performance Plan for 2002 includes a number of performance indicators that reflect the President's commitment to modernizing the agency's operations. The budget includes resources to help the agency meet the goals of responsive programs, excellent customer service, strong program integrity, and strengthened public understanding of Social Security. Like the agency's administrative activities, these goals cut across programs. SSA's broad goals and related performance measures for 2002 are described below.

Ensure integrity of Social Security programs: The budget supports activities undertaken by SSA to ensure the integrity of records and payments. These activities include reviewing claimants' eligibility for continued benefits, collecting debt, detecting overpayments, and investigating and deterring fraud.

- In 2002, SSA expects to eliminate the backlog of more than four million CDRs that built up prior to 1996. CDRs help increase public confidence in the integrity of SSA's disability programs by ensuring that only people who continue to be disabled receive benefits.
- In 2002, SSA plans to perform 2.3 million non-disability redeterminations, an increase of 205,000 redeterminations over the 2001 level and 78,000 over the 2000 level.

Promote responsive programs: SSA's programs must reflect the interests of beneficiaries and society as a whole. Programs must evolve to reflect changes in the economy, demographics, technology, medicine, and other areas. Many DI and SSI beneficiaries with disabilities, for example, want to be independent and work. Many of them can work, despite their impairments, if they receive the support they need. Yet less than one percent of disabled beneficiaries in any given year actually leave SSA's programs due to employment. Americans with disabilities should have every freedom to meet their full potential and participate as full members in the economic marketplace.

As part of the New Freedom Initiative, the President will work for swift implementation of the Ticket to Work and Work Incentives Improvement Act. Enacted in 1999, the Act aims to help disabled beneficiaries enter or re-enter the work force. This law expands beneficiaries' choice of employment service providers, allows persons with disabilities to keep or obtain Federal health benefits when they enter, re-enter, or remain in the work force, and authorizes SSA to carry out demonstration projects to identify effective ways to help DI beneficiaries return to work. SSA began implementation of the new law in 2000, and the budget includes funding to continue and build on these activities in 2002.

Deliver customer-responsive service:

Roughly three-quarters of SSA's total administrative budget is devoted to the day-to-day work generated by requests for service from the general public. Much of this work takes the form of determining eligibility for benefits. The time required to process benefit claims is affected by the design of the eligibility determination procedures, as well as by the level of resources dedicated to claims-processing activities and the number of claims received. The President's Budget supports efforts to streamline these procedures.

- In 2002, the average processing time for hearings (i.e., the elapsed time from the receipt of "request for hearing" to "notice of decision") at SSA's Office of Hearings and Appeals will be 259 days, an improvement from 297 days in 2000.

The Internet is a crucial tool in the Administration's plan for a Government that is more

efficient and responsive to citizens. SSA will undertake activities to fully realize the power of the Internet to improve customer service delivery.

- By the end of 2002, SSA plans to offer 30 percent of the agency's customer-initiated services electronically, either via the Internet or through automated telephone service. In 2000, only 10 percent of these services were available electronically.

Strengthen public understanding of Social Security programs: The budget supports the development, production, and distribution of products to educate the public about Social Security benefits and Social Security's larger impact on society. SSA conducts an annual survey to measure public understanding of Social Security programs and issues and undertakes a variety of activities to increase public awareness.

- In 2002, SSA projects that 75 percent of the public will be knowledgeable about Social Security programs, an increase from the 2000 goal of 65 percent.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits when their overall income, including Social Security, exceeds certain income thresholds. Social Security beneficiaries will pay \$13.5 billion in income taxes on their benefits in 2002 and \$79.3 billion over the period 2002 to 2006. If all Social Security benefits were subject to income taxes, taxes would increase by an estimated \$27 billion in 2002 and \$150 billion from 2002 through 2006.